



April 26, 2007

TO: Transportation Authority of Marin Commissioners

FROM: Dianne Steinhauser, Executive Director

THROUGH: Li Zhang, Manager of Finance and Administration

RE: Adoption of Draft TAM Investment Policy, Agenda Item 7

Dear Commissioners:

### **Executive Summary**

The Marin County Treasurer is appointed as TAM's treasurer and makes all investment decisions on behalf of TAM. The Treasurer's office has a great staff team and the Marin County Investment Pool was rated again as AAA + by Fitch Ratings on October 2006. TAM appreciates the great investment service the County Treasurer's Office provides and has no intent to change this relationship at this time point. Even though it is not required, it is recommended that TAM still adopt its own investment policy to further ensure investments are made in TAM's best interest. The proposed draft investment policy is mostly consistent with the County Statement of Investment Policy. On the other hand, the policy allows TAM the flexibility of requesting special purpose investments if staff members from both TAM and the County Treasurer's Office agree that such investments are in TAM's best interest.

At the March TAM Board meeting, the investment policy was postponed as TAM Commissioner alternate Larry Chu had made a number of very recent comments that had yet to be addressed. Since that time, Commissioner Chu's comments were all addressed and the investment policy draft finalized.

**Recommendation: Staff recommends that the TAM Board adopt the TAM Investment Policy.**

### **Background**

The TAM Administrative Code Article VI, Section 106.8 states that "all funds of the Authority will be invested in the manner and upon the conditions set forth in Government Code 53601, and the receipt, transfer or disbursement of such funds during the term of the Agreement shall be accounted for in accordance with generally accepted accounting principles applicable to governmental entities". TAM's surplus funds have been invested by the Marin County Treasurer in the Marin County Investment Pool. At present, the Marin County Investment Pool is proven to be safe and efficient for investing TAM funds. The Marin County Investment Pool was rated again as AAA/V1+ by Fitch Ratings on October 2006. The AAA rating means the pool meets the highest credit quality standards for underlying assets, diversification, management, and operational capabilities. The pool's V1+ rating reflects low market

risk and a strong capacity to return stable principal values to participants even in severely adverse interest rate environments.

Even though it is not mandated, it is recommended that TAM develops and adopts its own investment policy to further ensure those investments are made in TAM's best interests. Based on requirements from California Government Code Section 53600 and extensive communications with staff from the County Treasurer's Office, staff revised the initial TAM Investment Policy and crafted it based on the County Statement of Investment Policy. The adoption of an investment policy will not change the relationship between TAM and the County as investments made for the existing pool by the Treasurer are consistent with the proposed TAM investment policies. TAM staff should review the investment policies annually and bring any suggested changes to the Board for approval.

**Recommendation**

Staff recommends that the TAM Board adopts the TAM Investment Policy.

**Attachment**

Draft TAM Investment Policy



## ***INVESTMENT POLICY***

*ADOPTED MARCH 2007*

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# Transportation Authority of Marin Investment Policy

## I. PURPOSE

This Investment Policy (the Policy) sets forth the investment guidelines for all general, special revenue, trust, agency and enterprise (Invested Funds) of the Transportation Authority of Marin (TAM). The objective of this Policy is to ensure that TAM funds that are not required for the immediate needs of TAM are prudently invested to preserve principal and provide necessary liquidity, while earning a market average rate of return.

TAM funds deposited with the Marin County Treasurer may only be invested in Marin County Treasury Pool or in Special Purpose Investments, if any, as authorized by this Policy. The TAM Policy conforms to applicable California Government Code provisions as well as customary standards of prudent investment management. Irrespective of these Policy provisions, should the provisions of the Code be or become more restrictive than those contained herein, such provisions will be considered, immediately incorporated into this Policy, and adhered to.

## 2. SCOPE

It is intended that this Policy cover all invested funds and investment activities under the direction of the TAM Board and deposited with the Marin County Treasurer.

## 3. OBJECTIVES

All funds on deposit with the County Treasurer shall be invested in accordance with California Government Code to ensure:

- (a) **Preservation of capital** through high quality investments and by continually evaluating the credit of financial institutions approved for investment transactions, and securities considered and held in safekeeping;
- (b) Maintenance of sufficient **liquidity** to enable the participants and other depositors to meet their operating requirements; and
- (c) A **rate of return** consistent with the above objectives.

These objectives are to be achieved through the diversification of TAM investments among the Marin County Treasury Pool and Special Purpose Investments, if any. The combination of the Marin County Treasury Pool and the Special Purpose Investments, if any, of TAM funds will provide significant diversification, safety of principal and liquidity for TAM's programs. Special Purpose Investments (if any) in an TAM separate account will experience market price changes due to interest rate risk consistent with longer maturity investments that are permitted by this Policy.

#### **4. RESPONSIBILITIES**

*The Governing Board.* The TAM Board of Commissioners is responsible for establishing this Policy. This Policy shall be reviewed annually by the Board of Commissioners at a public meeting. The Marin County Treasurer has been appointed Treasurer of TAM. The Treasurer shall be appointed at least annually by the TAM Board of Commissioners.

*The Treasurer.* The Treasurer is responsible for making investments and for compliance with this Policy pursuant to the delegation of authority to invest funds or to sell or exchange securities made in accordance with the Code. The Marin County Treasurer has been appointed Treasurer of TAM. If the TAM Board of Commissioners appoints as Treasurer someone other than the Marin County Treasurer, the new Treasurer shall be responsible for making investments and for compliance with this Policy or such other Policy which may be adopted by the TAM Board of Commissioners at that time.

*The Finance Manager.* The Finance Manager shall submit a quarterly report to the Board of Commissioners, based on information provided by the Treasurer. The Finance Manager is responsible for preparation of cash flow forecasts for TAM funds as described below. The Finance Manager may recommend specific individual investments for the Special Purpose Investments, if any, to be made by the Treasurer.

#### **5. IMPLEMENTATION**

TAM's Board of Commissioners or persons authorized to make investment decisions on behalf of TAM are trustees and fiduciaries subject to the prudent investor standard.

The standard of prudence to be used by investment officials shall be the "prudent person" standard as defined in the Code below and shall be applied in the context of managing an overall portfolio. TAM's investment professionals acting in accordance with written procedures and the Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control developments.

**The Prudent Person Standard:** When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

Invested Funds are idle or surplus funds of TAM including all segregated funds. The Cash Flow Horizon is the time period in which the TAM cash flow can be reasonably forecast. This Policy establishes the Cash Flow Horizon for TAM idle or surplus funds to be at least five (5) years. The TAM Cash Flow Horizon must be updated at least every six months.

When the TAM Finance Manager determines that the cash flow forecast can be met, the Treasurer, at the request of the Finance Manager, may invest a maximum of up to 100% of the minimum amount of funds available for investment during the Cash Flow Horizon in the Marin County Treasury Pool or Special Purpose Investments.

Authorization for specific instruments within these general categories as well as portfolio concentration and maturity limits are established below as part of this Policy. No investments shall be authorized that have the possibility of returning a zero or negative yield when held to maturity; for example: inverse floaters, range notes or interest only STRIPS. As the California Government Code is amended, this Policy shall likewise become amended.

TAM investments or deposits in the Marin County Treasury Pool are governed by the Marin County Treasurer's Statement of Investment Policy.

TAM funds that are invested by the Treasurer in a Special Purpose Investment separate account outside of the Marin County Treasury Pool are subject to this Policy.

## **6. BIDS & PURCHASES**

Prior to the purchase of an investment pursuant to this Policy the persons authorized to make investments shall assess the market and market prices using information obtained from available sources including investment services, broker/dealers, and the media. Bids for various investments shall be evaluated considering preservation of capital as the most important factor, liquidity as the second most important factor and lastly, yield. Investments in commercial paper, bankers acceptances and certificates of deposit for each issuer shall be limited to five percent (5%) of Treasury assets, determined using the Treasury balance at the time of purchase, except that investments in overnight commercial paper shall be limited to seven percent (7%) of Treasury assets for any one issuer. The investment selected for purchase shall be that investment which in the opinion of the purchaser most clearly meets these objectives. All security transactions shall be documented at the time the transaction is consummated.

## **7. TERM**

Maturities of investments in the Marin County Treasury Pool shall be selected based upon liquidity requirements. The maximum remaining term to maturity for an investment shall be two (2) years; except that, subject to the limitations set forth in the California Government Code, the Treasurer may authorize investments in U.S. Treasury obligations and/or U.S. Agency obligations with a maximum remaining term to maturity that shall not exceed five (5) years. The weighted average maturity of the investment pool, to be determined at the time of purchase, shall not exceed 540 days to final maturity/call.

TAM may decide to request that the Treasurer make specific investments outside of the Marin County Treasury Pool in a Special Purpose Investment. No Special Purpose Investment shall have a remaining maturity in excess of five (5) years. The weighted average maturity of the Special Purpose Investment separate account portfolio may not exceed three (3) years. Maturity shall mean the nominal maturity of the security, or the unconditional optional

redemption date, if the security contains such provision. Term or tenure shall mean the remaining time to maturity when purchased.

## **8. ALLOWED INVESTMENTS**

Pursuant to California Government Code the Treasurer may invest in the following subject to the limitations as set forth:

- (a) United States Treasury obligations.
- (b) United States Agency obligations.
- (c) Securities of U.S. Government Agencies & Instrumentalities
- (d) State of California Bonds and Registered Warrants.
- (e) Bonds, Notes, Warrants or other evidence of indebtedness of a local agency within the State of California.
- (f) Bankers acceptances not to exceed one hundred eighty (180) days to maturity or at the time of purchase thirty percent (30%) of the treasury fund balance.
- (g) Commercial paper of "prime" quality of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation, to be chosen from among corporations organized and operating within the United States with assets in excess of \$500,000,000.00 and having an "A" or higher rating for the issuer's debt, other than commercial paper, as provided for by Moody's Investors Service or Standard and Poor's Corporation. Purchases of eligible commercial paper may not exceed two hundred seventy (270) days in maturity and may not exceed twenty-five percent (25%) of the treasury fund balance.
- (h) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a state or federal association or by a state-licensed branch of a foreign bank selected on the basis of financial stability and credit rating criteria employed by the County Treasurer. Negotiable certificates of deposit may not exceed thirty percent (30%) of the treasury fund balance.
- (i) Non-negotiable certificates of deposit (Time Deposits) with a nationally or state-chartered bank or a state or federal association selected on the basis of financial stability, credit rating and reputation using criteria employed by the County Treasurer, fully collateralized at one hundred ten percent (110%) of market value with U.S. Government Securities, high-grade Municipal Bonds, instruments of federal agencies, including mortgage backed securities at one hundred fifty percent (150%) of market value with promissory notes secured by first deeds of trust upon improved residential real property as provided by the Government Code.
- (j) Medium-term Notes rated "A" or better, to be chosen from among corporations with assets in excess of \$500,000,000.00 with a maturity not to exceed



two years from the date of purchase. Purchase of eligible medium-term notes may not exceed thirty percent (30%) of the treasury fund balance.

(k) Shares of beneficial interest issued by diversified management companies that are money market funds investing in securities and obligations as authorized by this investment policy. To be eligible for investment these companies shall attain the highest ranking or the highest letter and numerical rating provided by no less than two nationally recognized statistical rating organizations and have assets under management in excess of \$500,000,000.00. The purchase price may not include any commissions that these companies may charge, and the purchase of shares in any one mutual fund may not exceed ten percent (10%) of the treasury balance and the total invested may not exceed twenty percent (20%) of the treasury balance. Shares of beneficial interest issued by diversified management companies may include shares in investment trusts established under provisions of the California Joint Exercise of Powers Act.

(l) The Marin County Treasury Pool operated by the Marin County Treasurer.

(m) Repurchase agreements on any investment authorized by this investment policy where the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at one hundred two percent (102%) or greater of the funds borrowed against those securities, and the value shall be adjusted daily. The County Treasurer or designee must approve any collateral substitution by the seller, and any new collateral should be reasonably identical to the original collateral in terms of maturity, yield, quality and liquidity.

(n) California State Local Agency Investment Pool (LAIF) operated by the State Treasurer's office.

Where a percentage limitation is specified for a particular category of investments, that percentage is applicable only at the time of purchase.

## **9. WITHDRAWALS**

Requests for withdrawals for the purpose of investing or depositing funds outside the Marin County Treasury Pool shall be made in writing at least ten (10) business days in advance of the proposed withdrawal date. Notice in writing of at least five (5) business days shall be required for withdrawals in excess of \$250,000.00 for loan repayments, capital expenditures and any expenditure not in the ordinary course of operations.

## **10. SWAPS**

Securities can be swapped for other approved securities with similar maturity schedules to gain higher rates of return. When a swap involves a change in liquidity, future cash needs shall be conservatively estimated.

## **11. LOSSES**

Losses are acceptable on a sale before maturity, and may be taken if the reinvestment proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment, considering any investment loss or foregoing interest on the original investment.

## **12. DELIVERY & SAFEKEEPING**

Delivery of all securities shall be through a third party custodian. Non-negotiable certificates of deposit may be held in the Treasurer's safe. The County's safekeeping agent shall hold all other securities. No security shall be held in safekeeping by the broker/dealer from whom it was purchased. Settlement payment in a securities transaction will be against delivery only, and a Due Bill or other substitution will not be acceptable. Persons authorized under section three (3) who did not originate the investment transaction shall review all confirmations for conformity with the original transaction. Confirmations resulting from securities purchased under a repurchase agreement shall state the exact and complete nomenclature of the underlying securities purchased.

## **13. APPORTIONMENT OF INTEREST & COSTS**

Interest shall be apportioned by the Marin County Treasurer to all Marin County Treasury Pool participants quarterly based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the investment pool. The amount of interest apportioned shall be determined using the cash method of accounting whereby interest will be apportioned for the quarter in which it was actually received. The Marin County Treasurer shall deduct from the gross interest received those actual administrative costs relating to the management of the treasury including salaries and other compensation, banking costs, equipment purchased, supplies, costs of information services, audits and any other costs.

## **14. CONFLICT OF INTEREST**

A Commissioner of TAM Board shall not accept honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other person with whom the county treasury conducts business, that are in violation of *state law*.

## **15. TREASURY OVERSIGHT COMMITTEE**

Consistent with State law the County has established a Treasury Oversight Committee. The Committee includes representatives from the County of Marin, Superintendent of Schools' Office, School Districts and Special Districts. The Committee shall review and monitor the County's Statement of Investment Policy as contained in California Government Code.

## **16. REPORTS**

The Treasurer shall prepare a quarterly report listing all investments in the Marin County Treasury Pool as of the last day of the quarter and report the average days to maturity and yield of the investments. The Finance Manager shall prepare a quarterly

report based on the information provided by the Treasurer and submit the quarterly report to the TAM Board of Commissioners

#### **17. REVIEW OF INVESTMENT POLICY**

TAM's investment policy shall be adopted by resolution of the TAM Board of Commissioners. This policy shall be reviewed annually at a regular meeting of the TAM Board. Any modifications to this policy must be approved by resolution of the TAM Board.

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